

# SETTING UP BUSINESS IN BOSNIA AND HERZEGOVINA



## General Aspects

- Bosnia and Herzegovina: sovereign republic independent since 1992
- 3 entities: Republic of Srpska, Federation of Bosnia and Herzegovina, Brcko District
- Capital: Sarajevo
- Other major cities: Banja Luka, Mostar, Brcko, Tuzla
- Country area: 51,209 km<sup>2</sup>
- Population: 3.5 million inhabitants
- GDP per capita: \$4,709 (as of 2016)
- Timezone: CET
- Currency: Konvertibilna marka-KM (1.95 BAM = 1 EUR)
- Crossroads of SE Europe
- European route E73 through corridor 5C, close to corridors 7, 10A and 10B
- 3 international airports (Sarajevo, Banja Luka & Tuzla)
- Closest ports: Ploce, Split, Rijeka, Dubrovnik (CRO)

Bosnia and Herzegovina's (BiH) accelerated Economic Reform Process has contributed significantly to a greatly improved business climate. The aim of BiH is to eliminate legal and administrative obstacles for doing business in BiH, as well as create the most attractive business environment in the SEE.

BiH is a potential candidate country for EU accession and it has signed the Stabilization and Association Agreement with the European Union, which is a step toward EU membership.

BiH has signed the Central European Free Trade Agreement (CEFTA), creating a free trade zone with access to a large consumer market. Also, the process of negotiation to join the World Trade Organization is underway.

## Legal Forms of Business Entities

Legal form	Feature	Remarks
<b>Unlimited Joint Liability Company (d.n.s.o. / o.d)</b>	<p>Federation of Bosnia and Herzegovina - Founded by the establishment contract of two or more partners, domestic or foreign, natural persons only. Founders are liable to use all their assets, including personal property. There are no requirements for minimum or maximum contributions.</p> <p>(Two or more physical persons (partners) can set up an Unlimited Joint Liability Company by establishing a contract between them. Requirements for maximum or minimum contributions do not incur. Founders are liable to use any assets plus personal property)</p>	

	<p>Republic of Srpska - Founded by the establishment act of two or more domestic/foreign natural and/or legal partners who commit to do certain activity under the same company name, with their own unlimited solidary liability for company commitments. There are no requirements for minimum or maximum contributions.</p> <p>(Two or more domestic or foreign legal partners which are engaged to specific activities on behalf of the same company name, with their own solidary liability for company commitments. Requirements for maximum or minimum contributions do not incur.)</p>	
<p><b>Limited Liability Company (d.o.o.)</b></p>	<p>Federation of Bosnia and Herzegovina - Founded by the establishment act or establishment contact by one or more domestic/foreign natural and/or legal entities with initial capital divided in parts. A member in a limited company is liable for the value of his investment in that company. Minimum initial capital is 1,000 BAM (approx. 500 EUR)</p> <p>(For Limited Liability Companies the minimum capital is 2,000.00 BAM (1,000.00 EUR). Each party of the company is liable for the value of their own investments. One or more domestic or foreign legal partners, with initial capital separated in parts, can set up a LLC by establishing act or establishing contract.)</p> <p>Republic of Srpska - Founded by the establishment act of one to hundred domestic/foreign natural and/or legal entities. Shareholder in a limited company is not personally liable for any of the debts of the company, other than for the value of his investment in that company. Minimum initial capital is 1 BAM or 2,000 BAM (approx. 1EUR or 1,000 EUR) depending on the type and number of shareholder(s).</p> <p>(One to hundred domestic natural legal partners can set up a LLC by establishing act. The shareholders of such company are only liable for their initial capital investment of the company. The minimum capital for LLC is 1 BAM or 2,000 BAM (approx. 1EUR or 1,000 EUR) depending on the type and number of shareholder(s).</p>	<p>All documents that are made in foreign language must be translated by sworn court translator.</p> <p>Minimum capital for LLC is 1 EUR and is to be paid on the interim bank account prior the registration of company and after the signing Memorandum of Association (instructions for the money transfer will be provided by the local bank in B&amp;H). The proof that the capital is paid is one of the required documents for the registration. Usually in practice if the founding capital amounts to 1 EUR, this certificate is not required.</p> <p>Once the bank account of a company is opened, those funds shall be transfer from the interim account to the current company account.</p> <p>It is advisable to check in the Register if wanted name is available.</p>

<p><b>Limited Partners-hip (k.d.)</b></p>	<p>Federation of Bosnia and Herzegovina - Company founded by the establishment contract of two or more domestic/foreign natural and/or legal entities. There must be at least one partner with full liability and at least one partner with limited liability, the liability being limited by the value of his share in that company. There are no requirements for minimum or maximum initial capital.</p> <p>(To set up a limited partnership is necessary that two or more domestic natural legal partners need to enter into an establishment contract in which one of them will be with full liability and the other one with limited liability. Requirements for maximum or minimum contributions do not incur.)</p> <p>Republic of Srpska - Founded of two or more domestic/foreign natural and/or legal entities by the establishment act; one person at least has unlimited liability for the company, and one person at least has liability to the amount of his/her investment in the company. There are no requirements for minimum or maximum initial capital.</p> <p>(To set up a limited partnership is necessary that two or more domestic natural and/or legal partners need to enter into an establishment contract in which one of them will be with full liability and the other one with limited liability. Requirements for maximum or minimum contributions do not incur.)</p>	<p>A limited partnership is responsible for all of its liabilities with its entire property. Contributions of partners can be in cash, rights or goods.</p>
<p><b>Joint-Stock Company (d.d. /a.d.)</b></p>	<p>Federation of Bosnia and Herzegovina - Legal entities founded by the establishment contract of one or more domestic/foreign natural or legal shareholders with initial capital divided into shares. To set up a Joint-Stock company is necessary one or more domestic or foreign natural or legal partners to enter into establishment contract with initial capital divided into shares.</p> <p><i>a. Open joint-stock company</i> is a legal entity (banks and insurance companies or company with minimum initial capital of 4,000,000 BAM (approx. 2,000,000 EUR), and 40 shareholders at least whose shares may be publicly listed.</p> <p><i>b. Closed joint-stock company</i> is a legal entity, whose shares are distributed among a limited number of shareholders. The minimum initial capital is 50,000 BAM (approx. 25,000 EUR).</p>	<p>The following documents must be submitted to Register for incorporation of JSC:</p> <ol style="list-style-type: none"> <li>1. Memorandum of Association.</li> <li>2. Articles of Association.</li> <li>3. Place of residence, citizenship and occupation of members of the Board of Directors and statements on the acceptance of the position.</li> <li>4. Name of Executive Director, Secretary and Auditor.</li> <li>5. Decision of the Securities Commission on successful emission of shares.</li> <li>6. Decision of the Central Depository Agency.</li> <li>7. Evidence on payment of the incorporation fees.</li> </ol>

Republic of Srpska - Legal entity founded by the establishment act of one or more domestic/foreign natural and/or legal entities with initial capital divided into a defined number of shares. To set up a Joint-Stock company is necessary one or more domestic or foreign natural or legal partners to enter into establishment contract with specific number of shares.

- a. *Open joint-stock company* is a legal entity, whose shares may be publicly traded i.e. offers its shares for sale upon the open market and they are listed on the stock exchanges and other public markets. The minimum initial capital is 50,000 BAM (approx. 25,000 EUR).
- b. *Closed joint-stock company* is a legal entity, whose shares are distributed among a limited number of shareholders. The minimum initial capital is 20,000 BAM (approx. 10,000 EUR).

## Organizational Questions

Topic	Feature
<b>Commercial Register</b>	Registration of a company in B&H is carried out at the Central Registry of Commercial Court. The newly formed company is obligated to register with the Office of Statistics and the Tax Office within 5 working days after registration with the Commercial Court. Registration with the Customs Office is optional, depending on the company's activities (i.e. an import/export Company would be required to register).
<b>Bank Account</b>	Documents required for obtaining bank account: <ol style="list-style-type: none"> <li>1. Certificate of the company from the Commercial Court.</li> <li>2. Certificate of Tax authorities on tax identification number</li> <li>3. Copy of passport of Executive Director and authorized persons of the company</li> <li>4. Signature specimen for Executive Director</li> </ol>
<b>Transfer of Capital</b>	Free flow of capital is basic principle of open economy existing in B&H.

<b>Visa and Residence permit</b>	<p>Documentation needed for residence permit:</p> <ol style="list-style-type: none"> <li>1. Request</li> <li>2. Passport/verified copies (valid at least 3 months following the visa expire day)</li> <li>3. Working permit</li> <li>4. Bank account open in Bank located in B&amp;H</li> <li>5. Insurance /health or travel</li> <li>6. Proof of temporary living in B&amp;H /Verified lease contract of the apartment, and certificate of ownership from Real-estate Agency</li> </ol> <p>Procedures of residence permit last one month. A working permit is issued for one-year period. A request for renewal is submitted 45 days from the day of expiring the initial working permit.</p>
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## Employment

Topic	Feature
<b>Work permit</b>	<p>A procedure for obtaining working permit is the same for EU and non-EU citizens.</p> <p>An authorized institution for issuance is Employment Agency of B&amp;H. A temporary residence permit is required before obtaining working permit.</p> <p>A work permit cannot be issued for a period longer than 1 (one) year. Also, Employer as a legal entity, must be registered in B&amp;H.</p> <ol style="list-style-type: none"> <li>1. Request (application form).</li> <li>2. Certificates from Public register and Statistic agency of the Bosnian company that hires foreign employee.</li> <li>3. Passport-verified copies, translated to Bosnian language.</li> <li>4. Certificate of Bosnian Ministry of science about professional qualification of employee.</li> <li>5. Proof of employment advertising</li> <li>6. Fees.</li> </ol> <p>For renewal of working permit:</p> <ol style="list-style-type: none"> <li>1. Request form /application.</li> <li>2. Warranty proof from the Employer of issuing the permit (i.e. Labour agreement for defined period(for example two years), Projects duration, Lack of such employee education profile in B&amp;H).</li> <li>3. Fees.</li> <li>4. Passport/verified copies.</li> </ol>

## Social system

### a) Employee's share:

Federation: 17% for pension insurance, 12,5% for health insurance, 1,5 % for unemployment insurance (in total: 31 % on gross wage).

Republic of Srpska: 18,5% for pension insurance, 12% for health insurance, 0,8% for unemployment insurance, 1,7% for child protection (in total: 33% on gross wage). 0,25% for solidarity fund (on net wage – on voluntary basis).

Brcko District: 17% for pension insurance for employers who apply FB&H law and 18,5% for pension insurance for employers who apply RS law, 12% for health insurance and 1,5 % for unemployment insurance (in total 30,5 or 31,5% on gross wage).

### b) Employer's share:

Federation: 6% for pension insurance, 4% for health insurance, 0,0% for unemployment insurance (in total: 10,50% on gross wage). 0,5% for special contribution for natural disasters (on net wage), 0,5% for water contribution (on net wage). 0,5% for disabled fund (on gross wage).

Brcko District: 6% on gross wage for pension insurance for employers who apply Federation law. In Republic of Srpska, no such contributions are paid.

Republic of Srpska: 0,1% for disabled fund (on gross wage).

In Republic of Srpska as well as in the Federation of B&H, contributions are calculated on the basis of gross wage. Gross wage includes net wage earned by regular employment, multiplied by determined coefficient, plus contributions from wage.



# Taxation

Topic	Feature	Remarks
<b>CIT</b>	<p>Profits transferred from abroad are not taxed in Bosnia and Herzegovina.</p> <p>Profits transferred from abroad are not taxed if they were previously subject to taxation abroad.</p> <p>Companies are taxed on profit at the flat rate of 10% of the tax base (of taxable profit).</p>	<p>Corporate taxable basis - Profits are calculated in accordance with applicable laws, by deducting (real) expenses from revenues. The tax base includes profit gained through revenues and capital gains, according to the accounting regulations. The expenditures must conform to the accounting standards.</p>
<b>PIT</b>	<p>In both Republic of Srpska and Federation of Bosnia and Herzegovina - Personal income tax is 10 % on net salary (in accordance with gross model).</p> <p>All foreigners with permanent residence in the Federation of Bosnia and Herzegovina and Republic of Srpska pay personal income tax on revenues earned during a calendar year in Bosnia and Herzegovina territory. Equally, all foreigners who do not reside permanently in Bosnia and Herzegovina but who earn income in the Federation of Bosnia and Herzegovina and Republic of Srpska are considered as taxpayers.</p> <p>In Brcko District, foreigners are treated as taxpayers if they stay in the District territory during an uninterrupted period of 183 days at least.</p>	
<b>VAT</b>	<p>Unique VAT rate is 17%. Indirect Taxation Authority is in charge of collecting value added tax and coordinating fiscal policy issues in general. This body is also responsible for collecting customs and excises on the entire territory of Bosnia and Herzegovina.</p> <p>Value added tax is a comprehensive tax on consumption, assessed based on the value added to goods and services. This is a general tax applied to all commercial activities, including manufacturing and distribution of goods and providing services. It is a consumer tax because it is not paid by the company, but by the end user. It is assessed as a percentage of the cost of goods or services.</p>	<p>The tax amount is visible in all stages, from manufacturing to distribution chain. When paying tax liability, the taxpayer will reduce the value added tax by the tax amount he/she has already paid to other taxpayers at purchase. This ensures neutrality of taxation, regardless of the number of transactions involved.</p>



**Real estate tax**

Acquisition of real-estate in FBiH is subject to a transfer tax at the rate of 5 %. In RS, real-estate is subject to tax at the rate of 0.20% of market value (manufacturing real-estate 0.10%)

**Gift and inheritance taxes**

The inheritance and gift taxes in FBiH are determined at the cantonal level. For example, in Sarajevo the tax rate is 5%, in Tuzla 3% on inheritance and 2% on gifts. Nevertheless family members are excluded by fulfilling certain conditions. A capital gains tax of 10% on the difference between the market value and acquisition price is applied in RS.





*This guide has been prepared  
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